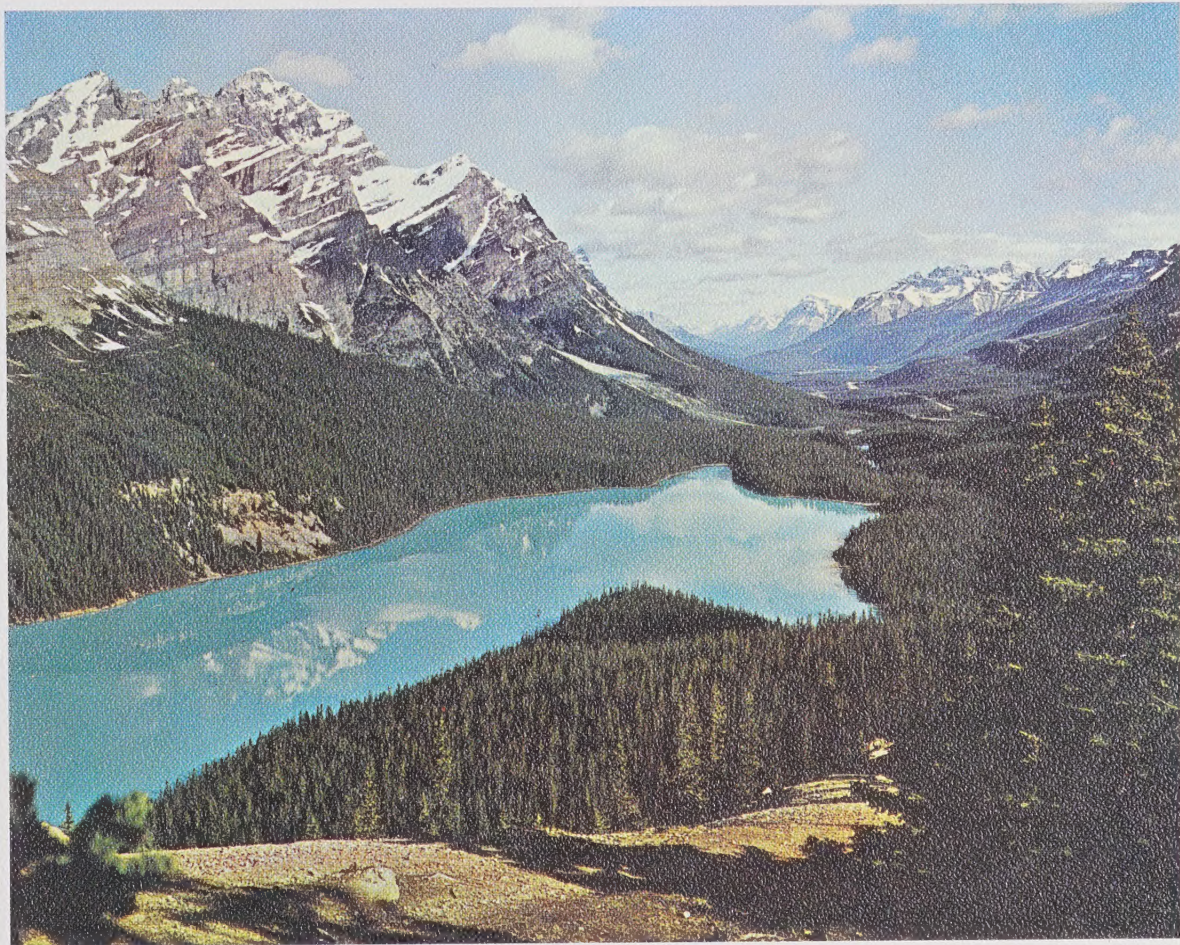



ANNUAL REPORT

Year Ending May 31st, 1970



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Peyto Oils Ltd.



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Peyto Oils Ltd.
and Subsidiary Company

HEAD OFFICE:

335 Examiner Bldg.,
CALGARY 2, Alberta.
Area Code 403 269-5867 - 264-7186
403 264-7186

OFFICERS:

WILLIAM WOLODARSKY—*President*
R. T. VANDERHAM—*Vice President*
A. N. MCCRUDEN—*Secretary*

DIRECTORS:

W. WOLODARSKY
R. T. VANDERHAM
A. N. MCCRUDEN
CARMEN W. BYLER
HAIG DE B. FARRIS

BANKERS:

CANADIAN IMPERIAL BANK OF COMMERCE
628 - 8th Ave. S.W.
CALGARY 2, Alberta.

REGISTRAR AND
TRANSFER AGENT:

MONTREAL TRUST COMPANY,
522 - 8th Avenue S.W.,
CALGARY 2, Alberta.

AUDITORS:

PEAT, MARWICK, MITCHELL & Co.,
309 - 8th Avenue S.W.,
CALGARY 2, Alberta.

Our Cover:
Peyto Lake, Banff National Park
Alberta, Canada

To the Shareholders:

On behalf of the Board of Directors we submit our Second Annual Report for the year ending May 31, 1970.

We wish to welcome approximately 350 new shareholders to our company. These shareholders now hold the company's shares by virtue of having exchanged their shares in Giant Reef Petroleum Limited.

The affairs of the company progressed most satisfactorily during the past year. Among the more significant developments were the private placement, reported to you earlier, of 300,000 shares at \$2.25/share which netted the company \$675,000. These shares were purchased by some very prominent world-wide investment firms such as N. M. Rothschild & Sons of London, England; Anglo American Corporation of Canada Ltd. (a member of the deBeers group of companies prominent in diamond mining in South Africa); Jenney Manufacturing Company of Boston and the Wachovia Bank of Winston Salem, North Carolina. We are pleased to have these firms as shareholders and encouraged by their confidence in the company. Another major development was the acquisition, via a share exchange, of 2,150,501 shares or 65% of

the outstanding shares of Giant Reef Petroleum Limited for which the company issued from its treasury 573,293 shares. This acquisition is reflected in the current consolidated financial statement.

Giant Reef Petroleum Limited's principal asset is a 5% working interest in 26,240 acres of leases in the Quirk Creek area of Alberta, on which to date eight gaswells and two dry holes have been drilled. The construction of a gas processing plant is in progress and is expected to be on stream early in 1971. The plant, together with the gathering system, products pipeline and two additional development wells estimated to cost \$18 million, will produce pipeline gas, natural gas liquids and sulphur. Giant Reef's share of the plant costs are being financed through a bank loan. We were fortunate in being able to negotiate this loan at an interest rate of only one-half percent over the prime rate. Although, the income from the sale of the plant production can, at this time, only be estimated due to the possible variance of the quantity of gas sold to Trans Canada Pipelines Ltd. and the uncertainty in the marketing of sulphur it is expected to be approximately \$250,000/year.

Not reflected in the current financial statement is the purchase of a 15% interest in eleven oilwells and two water injection wells in the Provost Viking oil field in Alberta. This acquisition, for which financing is being obtained will add approximately \$45,000 to the company's cash flow yearly.

At *Worsley, Alberta*, the company at no cost participated in the drilling of a Devonian (D-3) gaswell which encountered substantial gas pay. Unfortunately, the offset well was unsuccessful. The gaswell will go on production November 1, 1970. The company has a 10% interest in the well until payout, reverting to a 5% interest thereafter.

Negotiations are underway to acquire additional gas reserves in the *Neptune* area which,

added to the company's reserves will make the building of a gas processing plant feasible possibly during 1971.

The *Scurry et al Job Creek* well in which your company has a 6½% carried interest was drilled to 9800' and suspended due to spring breakup without reaching its Mississippian or Devonian objective. The operator is presently evaluating this prospect in order to determine the advisability of deepening this well later this fall, after freeze up.

The company continues its exploration activities in Alberta's gas prone Foothills and obtained a seismic option on 65,000 acres of Petroleum and Natural Gas rights adjacent to the *West Jumping Pound field*. Four participating companies have agreed to share the cost of the seismic program. The decision to drill either a 10,500' Mississippian test or a 12,500' Devonian test will depend on the result of the seismic survey now in progress. It is expected that Peyto will retain a 10% interest in this acreage spread, free of cost, through the first well.

A 10% interest was recently purchased in 2,741 net acres of leases on which a well is currently drilling to its Red River objective, expected at a depth of 12,900'. The well, known as Fort Gilbert Unit No. 1, is located in *Richland County, Montana*. The location is offset two and one-half miles Northwest by the Hay Creek oil field and a recent oil discovery was made two miles Southeast of the prospect. Lack of market proration and a price of \$3.05 per barrel, in addition to its geological setting and geophysical quality warranted this acquisition. The well is expected to reach its objective around the second week in October 1970.

We recently operated an unsuccessful 7900' well at Carstairs, Alberta. The cost of this venture was paid for by others.

A farmout was concluded on the company's acreage located at *Innisfail, Alberta*. The farmee is committed to commence and drill, free to Peyto, a 8600' Devonian test prior to December 15, 1970, to earn a 50% interest in the acreage.

The company's 21,120 acre exploration permit in the *Hackett area of Central Alberta* which was acquired in February 1970, has recently been farmed out. The company's interest in this permit is 50%. A Mississippian test will be drilled on the block by Sulpetro of Canada Ltd. prior to February 1971, at no cost to the company.

Offshore Italy in the Adriatic Sea we have recently completed a reconnaissance seismic survey on Permit #40. The results are encouraging and the participants are now attempting to interest others to drill an offshore well. The area is thought to be prospective for natural gas.

In *Turkey* one of the company's 100% offshore exploration licenses is under option to Canadian Superior Oil Ltd. who must shortly decide on either additional seismic work, the drilling of a testwell or terminating the option.

Another 125,000 acre exploration license was acquired recently, also located offshore in the *Black Sea*.

On our acreage offshore *Turkey in the Mediterranean*, which has been farmed out, a seismic survey has been completed.

The company's applications for three exploration licenses offshore *Nigeria* were rejected. The Nigerian Government advised that the area of our applications were "reserved for the use of the people" despite their earlier request to submit exploration proposals.

Your management will continue to select prospective areas for exploration and continue on its course of having others test its prospects. The acquisition of producing properties on favorable terms will continue to receive careful attention with a view of increasing our income.

At the forthcoming Annual Meeting it is proposed that Mr. Haig deB. Farris be elected a director of the company. Mr. Farris, a financial consultant with the firm of Brown, Farris and Jefferson, Vancouver, is a director of Giant Reef Petroleum Limited.

An application for listing the shares of the company on the Toronto Stock Exchange has been made. At this time we do not have any assurance that the application will be successful.

The continued interest of our shareholders in the affairs of the Company is appreciated by the Board of Directors.

The Annual Meeting will be held on October 23, 1970, at 10:00 a.m. at the office of the Company, 335, 805 Fifth Street S.W., Calgary, Alberta.

W. Wolodarsky,
President.

Quirk Creek

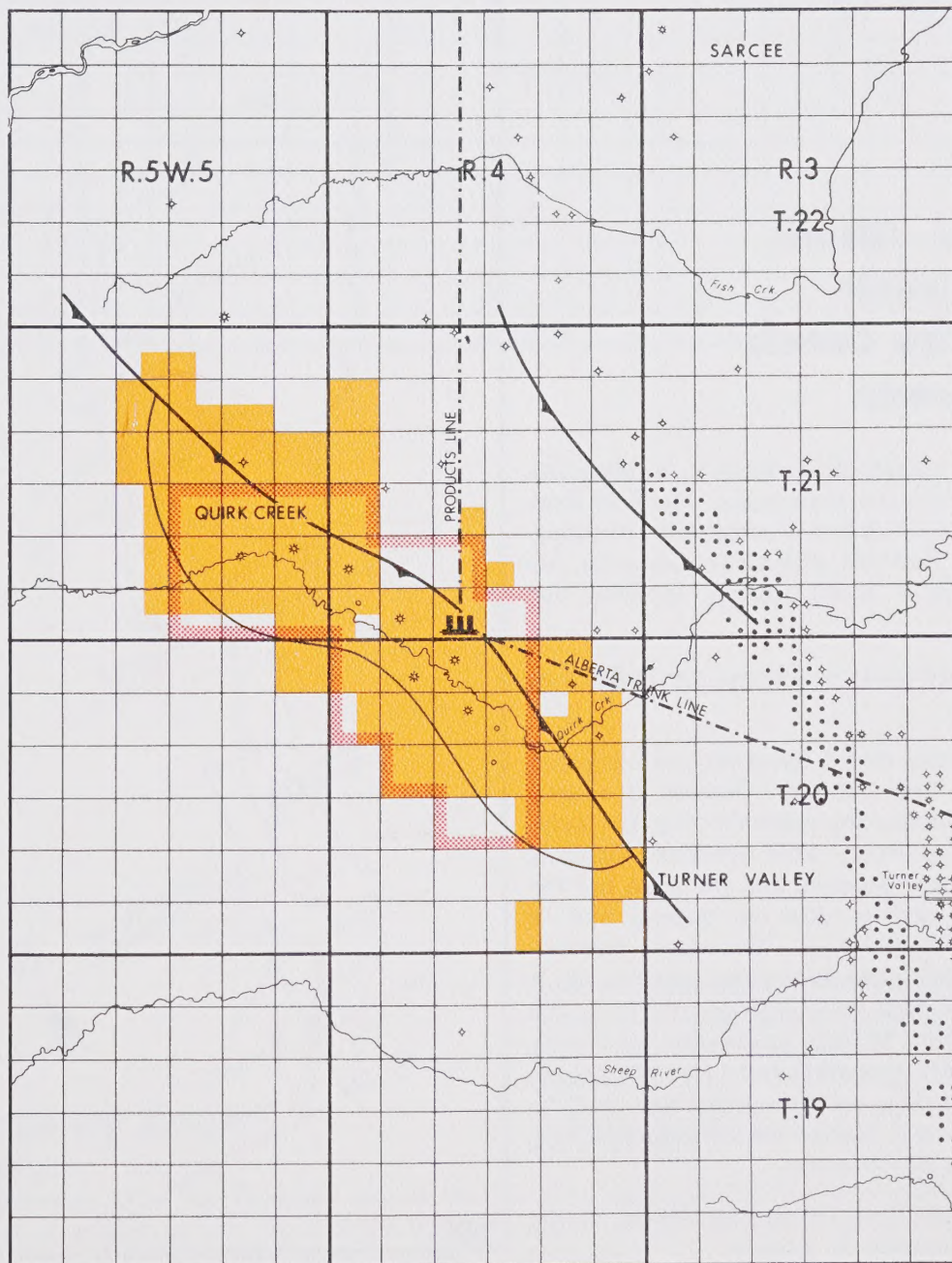
Peyto Oils Ltd., through its 65% owned subsidiary Giant Reef Petroleum Limited, owns a 5% working interest in 26,240 acres in the Quirk Creek area of Alberta. The Quirk Creek gas field was discovered in 1967 and subsequently 8 gaswells and 2 dry holes were drilled. Two additional locations have been staked.

Consulting Reservoir Engineers have estimated the reserves in the field at 500 billion cubic feet of gas, 30 million barrels of liquids and 1.8 million tons of sulphur.

It is hoped that additional gas reserves will be found in subsequent development drilling. Deeper zones also hold some promise. A well located some two miles North of the company's acreage tested gas from a depth of 13,000' from

a different zone in the Mississippian formation than found productive in the Quirk Creek field where production is encountered at approximately 6800'. Drilling in this part of the Foothills is expensive and results unpredictable, as evidenced by a recent unsuccessful well in 5-27-20-4-W5M.

In January 1970 construction commenced on a gas processing plant designed to process 90 million cubic feet per day of field gas. The plant processes the gas into pipeline gas, liquid hydrocarbons such as propane, butane, etc., and elemental sulphur. The plant is expected to go on stream early in 1971. The plant will be connected to the Alberta Gas Trunk Line System and the gas sold to Trans Canada Pipelines Ltd. The liquids will be transported through a liquid - products line to Cochrane and thence to Edmonton and Eastern Canada.



The Quirk Creek area, also shown on the map, is discussed on Page 5.





Worsley Area

In January 1970 the Company caused the drilling of a well in Lsd. 6-8-87-9-W6 which encountered ± 150 feet of gas bearing D-3 reef.

Reserves in this well in which the company was carried for a 10% interest are estimated at 19 billion cubic feet. The well will go on stream in November 1970. Unfortunately a follow - up in which we shared 5% of the drilling cost was abandoned.

Our studies of this area are continuing which might result in additional drilling during 1970 - 71.

Innisfail Area

37½% interest in 1120 acres — farmed out.

Job Creek Area

6½% interest in 16,600 acres.

Seebe-Ghost Area

10% carried interest in 65,000 acres

Quirk Creek Area

5% interest in 26,240 acres — 8 gaswells.

Worsley Area

5% interest in 5440 acres — 1 gaswell.

Neptune-Boundary Lake Area

20% interest in 6400 acres — 2 gaswells.

Byemoor Area

50% interest in 21,120 acres — farmed out.

Carstairs Area

25% interest in 4480 acres.

Eureka Area

13% interest in 400 acres — 4 oilwells.

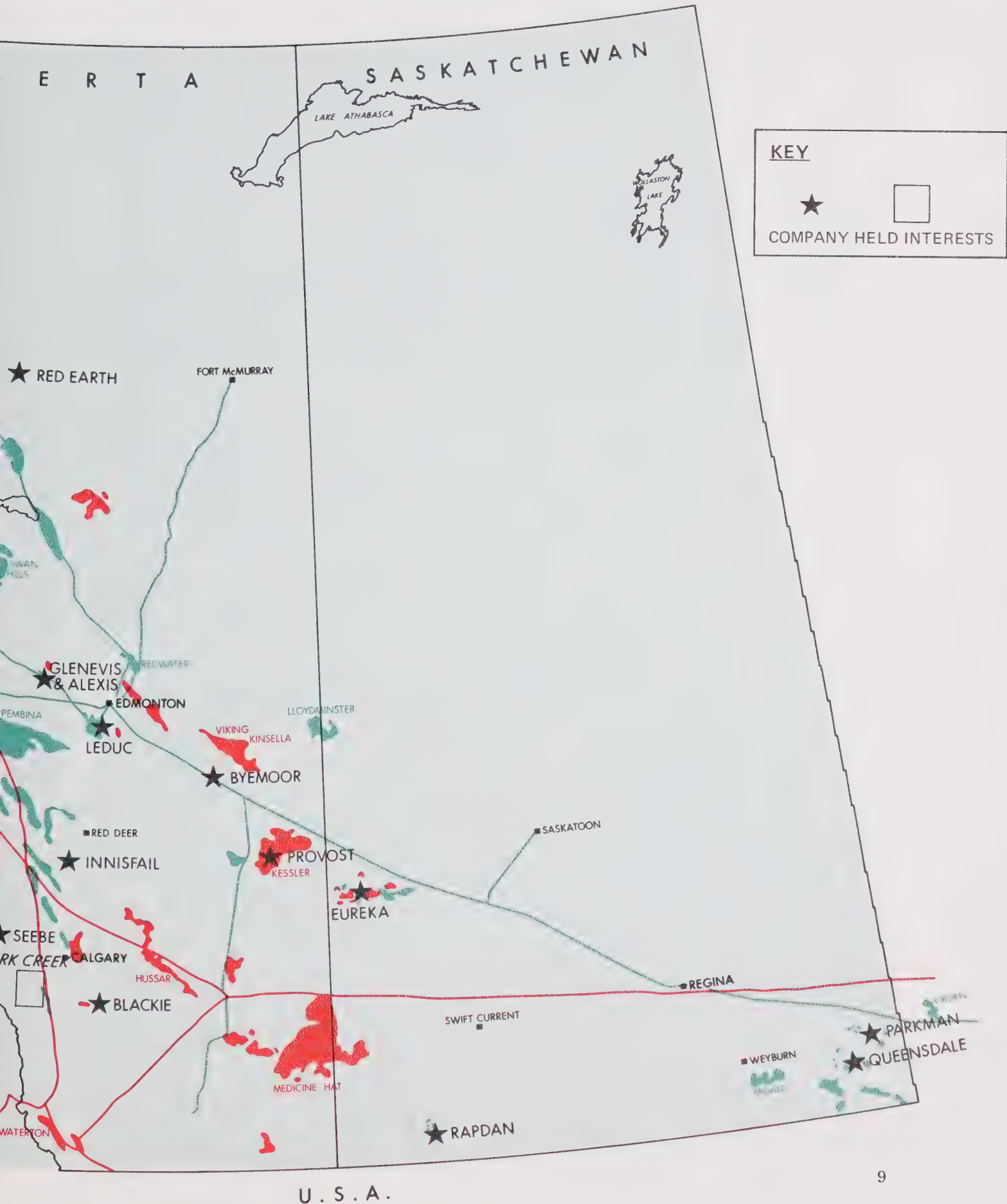
Provost Area

15% interest in 2080 acres — 11 oilwells.

Alexis, Blackie, Glenevis, Red Earth, Parkman

Royalty interest — 5 oilwells.

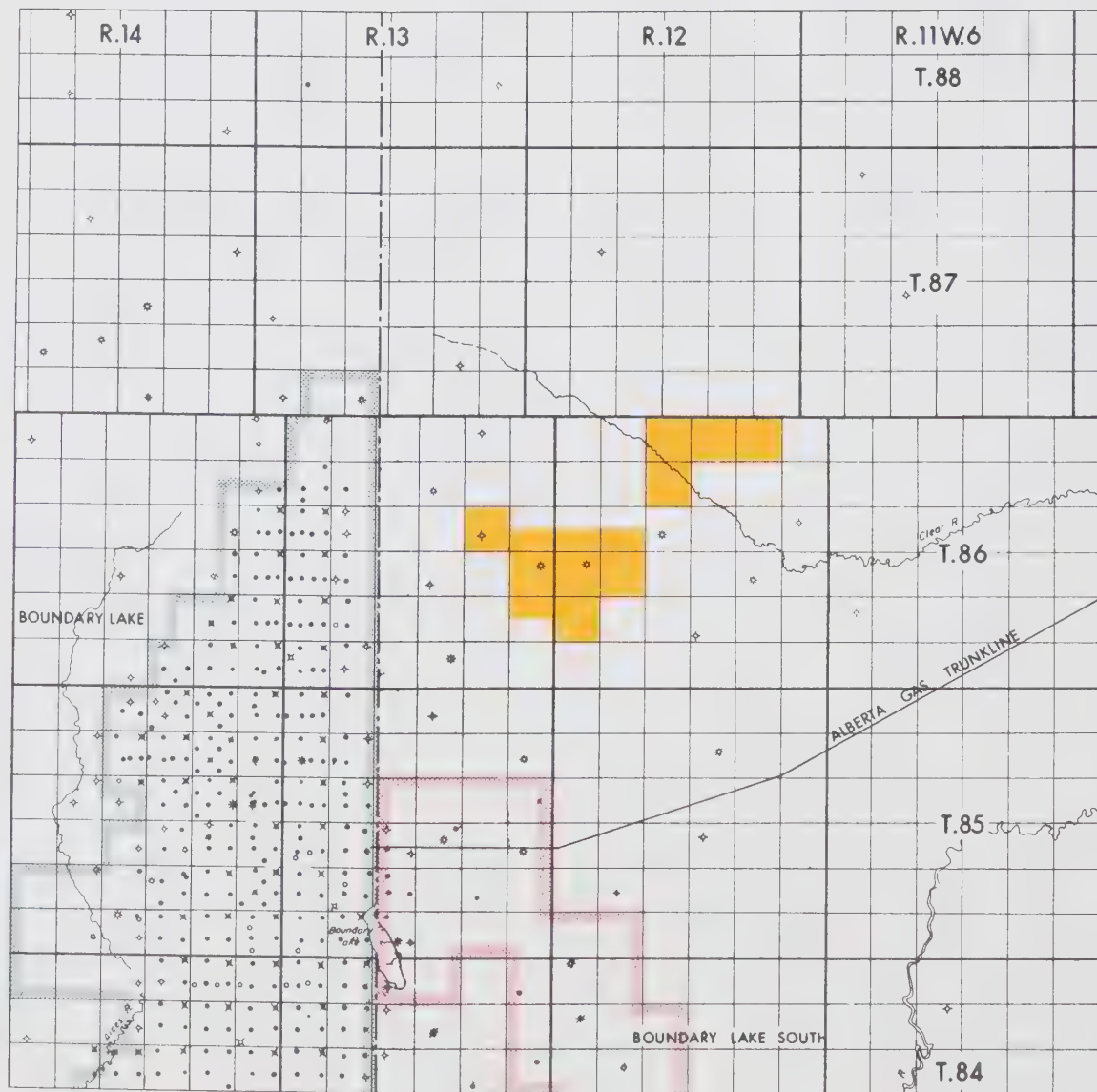


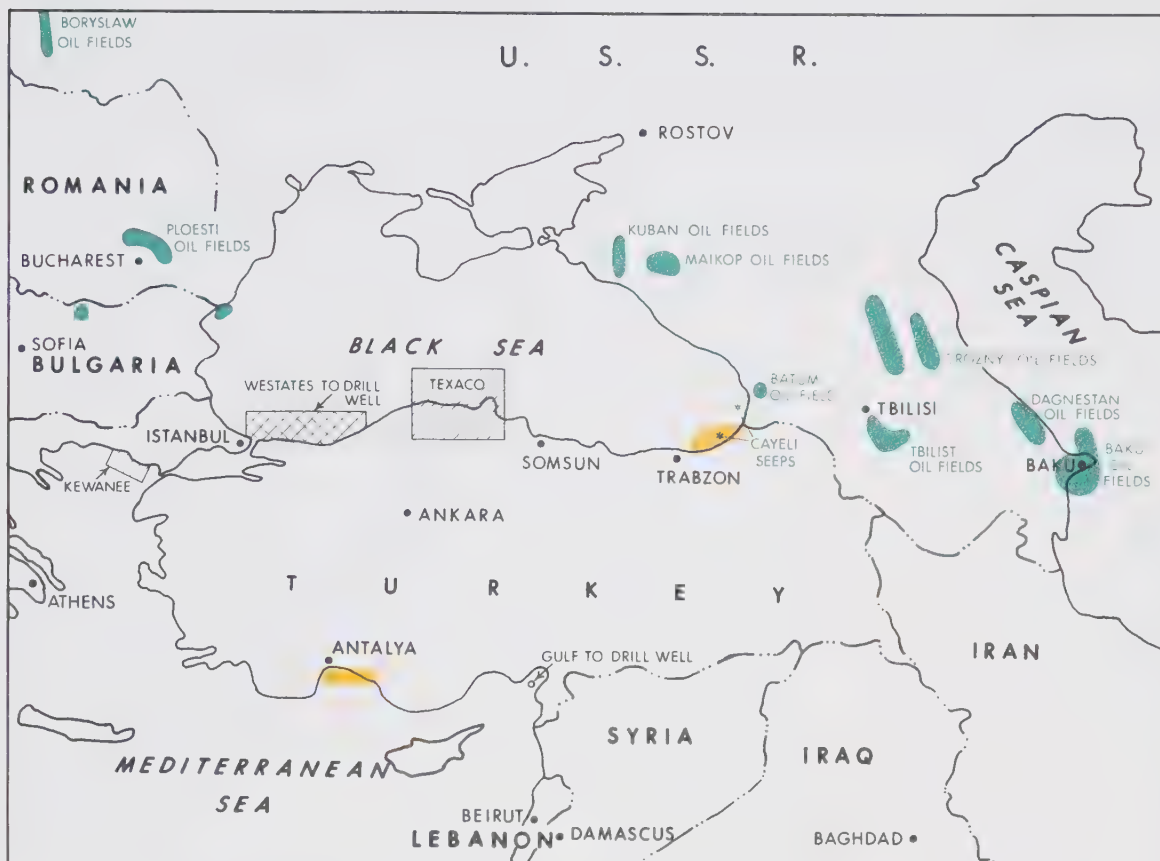


Neptune Boundary Lake Area

A total of 22 billion cubic feet of gas has now been outlined on a block of 6,400 acres in which we own a 20% interest. These reserves are insufficient to allow the building of a gas processing plant. Attempts are being made to

purchase additional reserves in the area to make this project economically feasible. A sizable oil pool appears to be developing some 7 to 10 miles South of our acreage which could increase additional drilling in the vicinity of our lands.





Turkey

The Company now owns two offshore licenses covering 250,000 acres at Trabzon, offshore Turkey in the Black Sea. One license was optioned out to Superior Oil Company of California and Canadian Superior Oil. These companies are reviewing our seismic data and must shortly decide to renew the option by

doing more seismic work. A well must be drilled on the block before the optionee earns an interest.

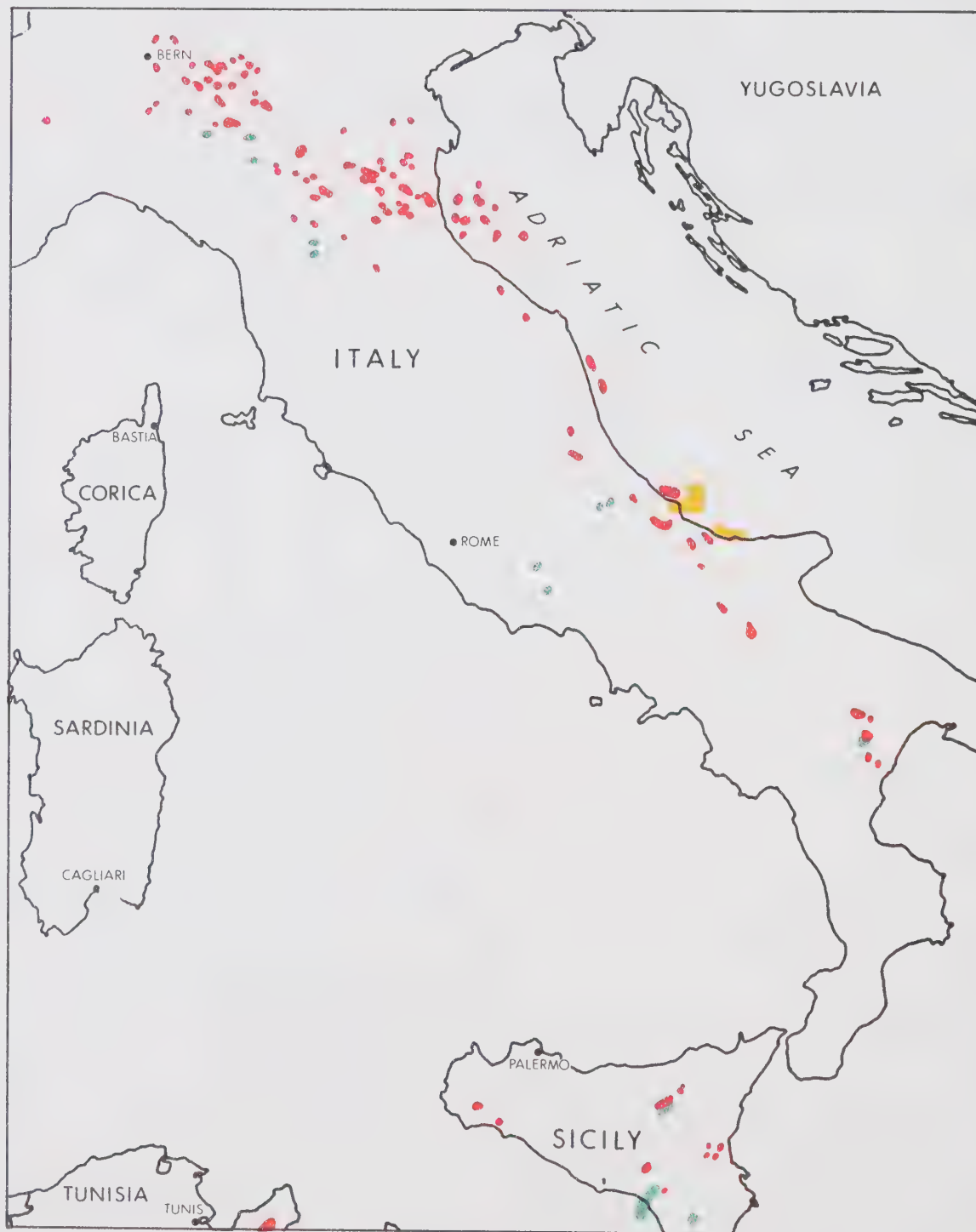
On the offshore Mediterranean 250,000 acre block a preliminary seismic survey has been completed and the results are encouraging. A part of our interest was sold for cash and a part interest was farmed out for seismic work. Attempts will be made to interest others in drilling a well on this block.

Interest in Turkey's oil possibilities is increasing with several major companies entering the play.

Italy

Company owns a 10% interest in three offshore licenses totalling 195,269 acres in the Adriatic. Seismic work has been completed on

one of the blocks. In addition, we also obtained 25,687 acre block onshore in which our interest is 10%. Again we are hopeful of having others test this acreage.



Peyto Oils Ltd. and Subsidiary Company

CONSOLIDATED BALANCE SHEET — MAY 31, 1970

(with comparative figures for 1969)

ASSETS

	1970	1969
Current assets:		
Cash	\$ 78,237	—
Deposit receipts, including accrued interest (Note 3)	769,786	210,000
Accounts receivable	9,473	4,887
Current portion of notes receivable from directors	5,000	5,000
Prepaid expenses and refundable deposit	4,131	—
Total current assets	<u>866,627</u>	<u>219,887</u>
Non - interest bearing notes receivable from directors, payable \$5,000 per annum and balance on September 1, 1973, net of current portion	<u>30,000</u>	<u>35,000</u>
Fixed assets, at cost less depreciation and depletion:		
Developed oil and gas properties and equipment thereon, less accumulated depreciation and depletion 1970 — \$8,450; 1969 — \$4,862	50,959	43,265
Capped gas wells (Note 1)	1,052,420	—
Gas plant under construction (Note 3)	166,653	—
Undeveloped properties	40,741	4,571
	<u>1,310,773</u>	<u>47,836</u>
Other assets:		
Other investments, at cost (no quoted market value)	14,500	—
Reservation deposits	15,810	2,500
Incorporation costs	3,798	926
	<u>34,108</u>	<u>3,426</u>
	<u>\$2,241,508</u>	<u>306,149</u>

LIABILITIES

	1970	1969
Current liabilities:		
Bank overdraft	\$ —	6,440
Accounts payable and accrued liabilities	128,824	5,772
Total current liabilities	<u>128,824</u>	<u>12,212</u>
Minority interest	<u>168,622</u>	<u>—</u>
Shareholders' equity:		
Capital stock (Note 2):		
Shares without nominal or par value.		
Authorized 3,000,000 shares; issued 1970 — 1,753,241 shares; 1969 — 880,000 shares	1,975,531	297,200
Deficit	31,469	3,263
	<u>1,944,062</u>	<u>293,937</u>
Commitment and contingency (Note 3)		
Approved on behalf of the Board:		
....., Director		
....., Director		
	<u>\$2,241,508</u>	<u>306,149</u>

See accompanying notes.

Peyto Oils Ltd. and Subsidiary Company

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

Year ended May 31, 1970 (with comparative figures for 1969)

	1970	1969
Revenue:		
Oil sales -----	\$ 8,654	7,924
Royalties -----	2,305	1,994
Geological and consulting fees -----	11,929	7,680
Gain on sale of properties -----	85,409	2,500
Interest -----	35,725	4,762
Contracting income -----	—	13,774
	<u>144,022</u>	<u>38,634</u>
Expenses:		
Lease operating -----	1,907	1,923
Dry holes and abandonments -----	69,259	—
Lease rentals on non - producing properties -----	5,349	884
Depreciation -----	1,025	1,298
Depletion -----	2,562	2,279
General and administrative expenses (Note 4) -----	75,258	15,232
	<u>155,360</u>	<u>21,616</u>
Net earnings (loss) -----	(11,338)	17,018
Retained earnings (deficit) at beginning of year -----	(3,263)	8,725
	(14,601)	25,743
Expenses on issue of shares -----	16,868	29,006
Deficit at end of year -----	<u>\$ 31,469</u>	<u>3,263</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

Year ended May 31, 1970 (with comparative figures for 1969)

	1970	1969
Source of funds:		
Proceeds on sale of common shares, net of costs of issue -----	\$1,661,463	267,994
Proceeds on sale of properties -----	85,409	2,505
Reduction in notes receivable from directors -----	5,000	—
Total funds provided -----	<u>1,751,872</u>	<u>270,499</u>
Application of funds:		
To operations:		
Net earnings (loss) -----	(11,338)	17,018
Add non - cash items — net:		
Gain on sale of properties -----	(85,409)	(2,500)
Dry holes and abandonments -----	69,259	—
Depreciation -----	1,025	1,298
Depletion -----	2,562	2,279
	<u>(12,563)</u>	<u>1,077</u>
Funds applied to (provided from) operations -----	23,901	(18,095)
Expenditures on fixed assets -----	116,710	32,977
Purchase of shares of subsidiary company -----	1,003,575	—
Working capital deficiency of subsidiary at date of acquisition -----	51,748	—
Increase in other assets -----	25,810	743
Increase in notes receivable from directors -----	—	35,000
Decrease in advances from shareholders -----	—	1,873
Total funds applied -----	<u>1,221,744</u>	<u>52,498</u>
Increase in working capital -----	<u>\$ 530,128</u>	<u>218,001</u>

See accompanying notes.

Peyto Oils Ltd. and Subsidiary Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1970

1. The consolidated financial statements include the accounts of Peyto Oils Ltd. and its subsidiary company, Giant Reef Petroleums Ltd., except that the consolidated statement of earnings and deficit includes only the accounts of Peyto Oils Ltd. as the subsidiary company was not acquired until May 31, 1970.

On May 4, 1970, Peyto Oils Ltd. made an offer to the Canadian shareholders of Giant Reef Petroleums Limited to exchange shares without nominal or par value in the capital stock of Peyto for shares without nominal or par value in the capital stock of Giant Reef on the basis of one share of Peyto for three and three quarter shares of Giant Reef and cash for fractional shares.

Pursuant to the terms of the offer, which expired on June 5, 1970, \$403 cash was paid and 573,241 shares of Peyto were issued or are to be issued, at an ascribed value of \$1.75 per share, in exchange for 2,150,301 shares of Giant Reef which represent approximately 65% of the issued and outstanding shares of Giant Reef. This transaction has been reflected in the accompanying consolidated financial statements as of May 31, 1970.

The excess of the purchase price of the shares of Giant Reef Petroleums Limited over the underlying net book value, at date of acquisition, has, on consolidation, been added to the cost of capped gas wells.

2. During the year ended May 31, 1970, shares in the capital stock of the company were issued as follows:

<u>Number of Shares</u>	<u>Consideration</u>	<u>Value</u>
300,000	cash	\$ 675,159
573,241	in exchange for shares of Giant Reef Petroleums Limited as outlined in Note 1	1,003,172
<u>873,241</u>		<u>\$ 1,678,331</u>

3. The company has issued to and deposited with certain governments, letters of credit to be held as security for the performance of work obligations in respect to exploratory rights. The aggregate of such letters of credit amounted to \$81,895 at May 31, 1970. The company has assigned \$100,000 of its deposit receipts as security for the letters of credit.

The subsidiary company has entered into an agreement for the sale of gas for a twenty-five year period subject to its providing the necessary facilities to process and deliver the gas. The subsidiary is therefore participating in the construction of a gas processing plant and its share of the total estimated costs of construction approximate \$870,000 of which \$166,653 is reflected in the accompanying consolidated financial statements.

4. The aggregate direct remuneration paid to directors and senior officers during the year amounted to \$18,006.
5. For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. For 1970 the companies do not intend to claim excess capital allowance but will claim the other specified deductions in an amount sufficient to eliminate taxable income, and expenditures remain to be carried forward and applied against future taxable income are estimated to be as follows

Drilling, exploration and lease acquisition costs	\$1,042,000
Undepreciated capital cost	\$ 169,277

Management does not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs; while the view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes in the current and prior years would have been insignificant.

6. Subsequent to May 31, 1970, the subsidiary company pledged certain properties and production therefrom as security for a bank loan in the amount of \$825,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Peyto Oils Ltd. and subsidiary company as of May 31, 1970 and the consolidated statements of earnings and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiary at May 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
July 23, 1970

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

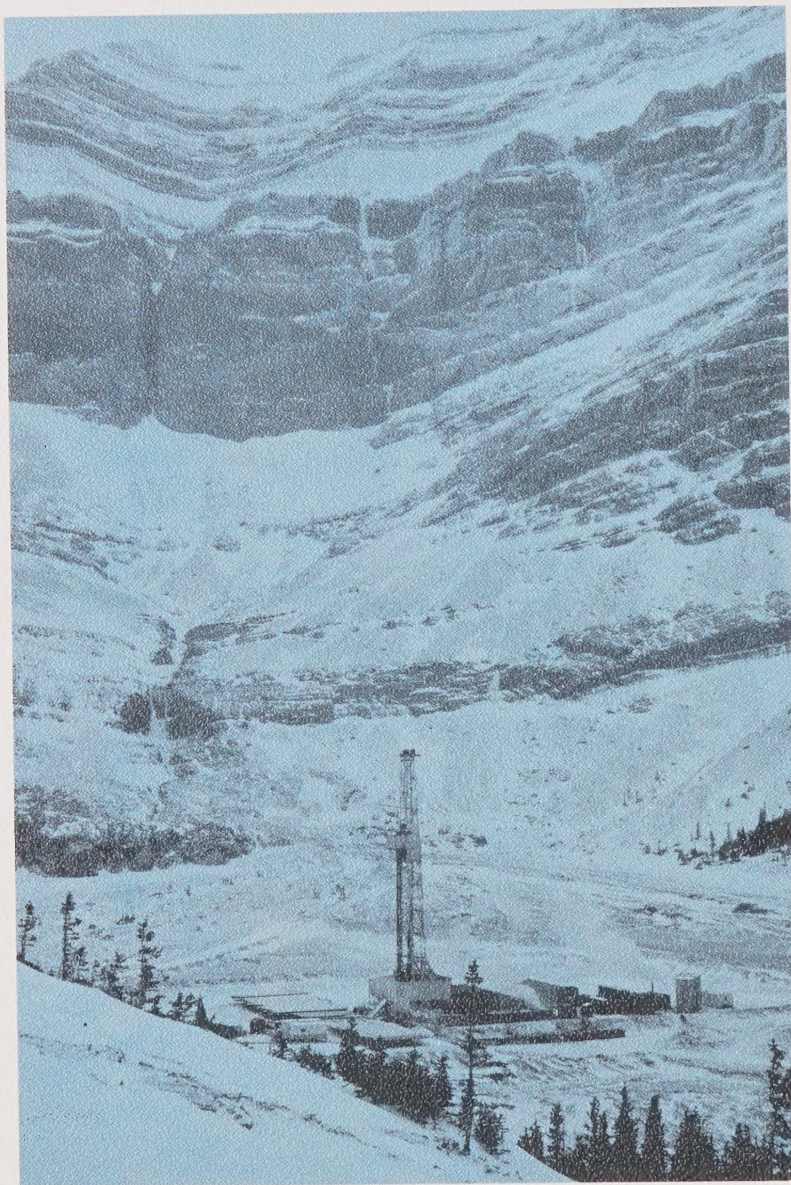


Photo by W. Wolodarsky

Drillsite of Scurry et al Job Creek 7-15-41-20-W5thM.

PEYTO OILS LTD.

335 EXAMINER BLDG.
CALGARY 2, ALBERTAP R E S S R E L E A S E

Peyto Oils Ltd. recently issued it's audited consolidated financial statement for the year ending May 31, 1970.

The year under review was successful as illustrated in the following tabulation:

	<u>1970</u>	<u>1969</u>
Gross Income	\$ 144,022	\$ 38,634
Net Income (loss)	(\$ 11,338)	\$ 17,018
Shares Outstanding	1,753,241	880,000
Working Capital	\$ 866,627	\$ 219,887
Shareholders Equity	\$1,944,062	\$ 293,937

At the shareholders meeting held in Calgary on October 23, 1970 shareholders were advised that the company had made a private placement of 300,000 of it's common shares which netted the treasury \$675,000. During the year, the company acquired 65% of the outstanding shares of Giant Reef Petroleum Limited. Giant Reef's main asset is a 5% working interest in the Quirk Creek field, located 45 miles Southwest of Calgary. A gas processing plant now under construction will process 90 million cubic feet of gas daily.

The Company participated recently in a prolific Red River oil discovery in Richland County, Montana. Initial potential of the well is 4,040 barrels per day and normal daily production will average 1000 BOPD.

With the Company's properties at Quirk Creek, Worsley, Hamilton Lake and Montana coming on stream during 1970-1971 it is estimated that the cash flow will approximate \$450,000 on an annual basis.

The 1,753,241 outstanding shares of the company will be admitted for trading on the Toronto Stock Exchange on November 26, 1970. Ticker Tape symbol PYT.

November 20, 1970.

R. T. Vanderham,
Vice-President.

